



U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

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Understanding Sequester: An Update for 2018

The Budget Control Act of 2011 (BCA) created a Joint Select Committee on Deficit Reduction (the “Supercommittee”), which was tasked with reaching agreement on a comprehensive deficit reduction package. When the Supercommittee failed, backup procedures in the law created an enforcement mechanism of automatic cuts. This mechanism requires nine annual sequestrations of \$109 billion affecting both mandatory and discretionary spending, which together with related debt service would reduce the deficit by \$1.2 trillion. The procedure was meant to spur the Supercommittee to agreement; sequestration was thought to be so outrageously punitive – such an intensely misguided, ill-considered, and poorly targeted method to achieve deficit reduction – that negotiators would compromise before resorting to it. Unfortunately, a compromise was not reached, and the “sequester” took effect.

The first of these annual sequestrations took effect in March 2013. While reductions have continued in some form in every year since, Congress has acted several times to prevent the harmful “sequester” cuts to discretionary programs. The most recent of these actions was the Bipartisan Budget Act of 2018 (BBA18), which not only prevents discretionary sequester cuts for 2018 and 2019, but also allows additional funding. The sequester will return in 2020 under current law.

How the Sequester is Allocated

The required savings come half from defense programs and half from non-defense programs. The defense category is the federal budget's national defense function, which includes the Department of Defense, nuclear-weapons related activities at the Department of Energy, and the national security activities of several other agencies (such as the Coast Guard and Federal Bureau of Investigation). Non-defense is everything else.

Within each half, the savings are allocated to discretionary programs and a set of mandatory programs proportionally. Discretionary programs are funded by annual appropriations bills, while the cost of mandatory programs (also known as direct spending, or entitlement spending) is generally determined by eligibility criteria established by law. Most mandatory spending (such as Medicaid and Social Security) is exempted from sequestration. The Office of Management and Budget calculates the dollar amount of the reduction to be taken from each category.

NOTE: Unless part of a bill title or date, all years are fiscal years.

Under this formula, roughly one-third of the non-defense savings come from mandatory spending and the rest from a reduction in the BCA's original ("pre-sequester") discretionary spending caps. Because defense has almost no mandatory programs, nearly all of the defense reduction comes from discretionary programs.

Because of the negative consequences of these severe cuts, Congress has yet to allow the full discretionary sequester cuts to take place. Mandatory spending cuts (about \$18 billion in cuts for non-defense programs and less than \$1 billion in cuts on the defense side) have largely been allowed to occur.

"Sequester" typically refers to the cancellation of budgetary resources after enactment.

While this is accurate for direct spending subject to the BCA's deficit reduction sequester, in the case of discretionary funding, the "post-sequester" or "austerity-level" spending caps constrain total appropriations, rather than reduce funding after enactment.

Impact on Discretionary Spending

For discretionary programs, the deficit reduction sequester is implemented by adhering to lowered defense and non-defense spending caps, and not through across-the-board cuts. Congress can choose to cut or spare individual programs through the appropriations process.

(If Congress provides more funding than allowed under the caps, an additional automatic across-the-board mechanism would be triggered to bring spending back to the cap.)

	2016	2017	2018	2019	2020
Original BCA Caps (Pre-Sequester)					
Defense	577	590	603	616	630
Non-Defense	<u>530</u>	<u>541</u>	<u>553</u>	<u>566</u>	<u>578</u>
Total	1,107	1,131	1,156	1,182	1,208
Austerity-Level Caps (Post-Sequester)					
Defense	523	536	549	562	576
Non-Defense	<u>493</u>	<u>504</u>	<u>516</u>	<u>529</u>	<u>542</u>
Total	1,017	1,040	1,065	1,091	1,118
BBA15 and BBA18					
Defense	548	551	629	647	
Non-Defense	<u>518</u>	<u>519</u>	<u>579</u>	<u>597</u>	
Total	1,067	1,070	1,208	1,244	

Discretionary budget authority in billions of dollars.

BBA15 changed the 2016 and 2017 caps; BBA18 changed the 2018 and 2019 caps.

It has been clear since the austerity-level sequester caps were set in place that this level of spending is too low to be practical. As a result, Congress has never allowed the full sequester-level cuts to take effect. Most recently, in February, BBA18 set the discretionary caps for 2018 and 2019 above the BCA pre-sequester levels, marking the first time the discretionary limits were

raised not just above the post-sequester level, but above the original BCA caps. BBA18 increased the defense and non-defense caps above the BCA pre-sequester levels by \$26 billion each for 2018, and \$31 billion each for 2019. From the post-sequester level, this represents an increase of \$80 billion for defense and \$63 billion for non-defense for 2018; and \$85 billion for defense and \$68 billion for non-defense for 2019.

In October 2015, the Bipartisan Budget Act of 2015 (BBA15) provided discretionary sequester relief for 2016 and 2017. That Act also called for an increase in war funding above the President's request. War funding is not constrained by the discretionary caps. In December 2013, the Bipartisan Budget Act of 2013 provided discretionary sequester relief for 2014 and 2015.

While these measures blunted the impact of sequestration for the near future, 2020 appropriations will face stark reductions unless Congress acts again. Before taking inflation into account, defense programs for 2020 would face a \$71 billion cut from the 2019 level, and non-defense programs a \$55 billion cut.

Impact on Mandatory Spending

Under the BCA, across-the-board reductions are made to all mandatory programs that are not specifically exempt. However, most mandatory spending *is* exempt, including Social

Mandatory Sequester – Percentage Cuts by Year							
	2013	2014	2015	2016	2017	2018	2019
Defense	-7.9%	-9.8%	-9.5%	-9.3%	-9.1%	-8.9%	-8.7%
Non-Defense							
Medicare	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Other	-5.1%	-7.2%	-7.3%	-6.8%	-6.9%	-6.6%	-6.2%

Security, veterans programs, Medicaid and other low-income programs, and net interest. In addition, the cut is limited for certain programs, such as Medicare, which receives cuts to providers that are capped at 2 percent regardless of the size of the sequester.

Even though the Medicare cut is limited, it still comprises about two-thirds of the non-defense mandatory sequester in dollar terms. The remaining reductions come mostly from farm programs, but student loans, the Social Service Block Grant, vocational rehabilitation, and dozens of other programs are also affected.

Excluding 2013, eligible non-defense non-Medicare mandatory programs have been cut through sequester by about 7 percent, and defense mandatory programs by about 9 percent. This represents the full cuts called for under the Budget Control Act. Unlike discretionary spending, sequestration of mandatory spending has never been reduced and has even been extended for more years.